

Message Text

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ACTION ARA-10

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FOR ARA/LA-EP - CORRY

EO 11652: GDS

TAGS: ENRG, EINV, EGEN, PFOR, PE

SUBJECT: FINANCING FOR OCCIDENTAL SPUR LINE/FEASIBILITY
OF TRANS-ANDEAN PIPELINE

REFS MUNRO-CORRY LETTER OF 3/17/75, LIMA 2091, LIMA 1945,
MUNRO-JARVIS MEMCON OF 3/13/75

1. BOTH BANK OF AMERICA AND WELLS FARGO BANK WERE
APPROACHED RECENTLY BY PETROPERU TO EXAMINE POSSIBILITY OF
FINANCING SPUR LINE, CONSTRUCTION OF WHICH WILL BE BY
WILLIAMS BROS.

2. BANK OF AMERICA OFFICIALS, LED BY RICHARD MANDERBACH,
SENIOR VP, LA OFFICE, CALLED ON EMBASSY OFFICERS MARCH 18
TO INFORM US THAT PETROPERU IS UNDERTAKING STUDY OF
POSSIBLE FINANCING BY OXY OF \$120-200 MILLION (FIGURES ARE NOT
ESTABLISHED YET) FOR COST OF OXY SPUR. BANK OF AMERICA
OFFICIALS SAID THEY REALIZE THAT DECISION TO HAVE OXY
FINANCE SPUR WILL MEAN RENEGOTIATING THRU-PUT COST TO
OXY FOR USE OF MAIN SPUR, AS WELL AS NEGOTIATING THRU-
PUT COST AGREEMENT FOR PETROPERU'S USE OF OXY'S SPUR.
THIS IN TURN MEANS THAT OXY OVERALL LEVEL OF FINANCIAL
COMMITMENT TO THE PIPELINE PROJECT WILL ALSO CHANGE.
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THEY EXPLAINED THEY ARE PRESENTLY IN EARLY DISCUSSION

PHASE WITH PETROPERU AND WITH OXY OVER POSSIBILITY OF PUTTING TOGETHER FINANCING PACKAGE AND NOTED THAT THEY MIGHT BE CALLING ON EX-IM IN NEAR FUTURE SINCE KEY TO ACCEPTABLE TOTAL COST WOULD BE NEED FOR SOME EX-IM PARTICIPATION (AT LEAST 30 PERCENT) IN FINANCING OF OXY SPUR. EMBASSY OFFICER EXPLAINED CURRENT STATE OF PLAY AND THAT EX-IM IS YET TO RECEIVE ANY DETAILED DOCUMENTATION FROM PETROPERU/COFIDE AND THAT, FURTHER, CURRENT UNDERSTANDING IS THAT GOP IS (OFFICIALLY) INTERESTED ONLY IN HAVING EX-IM FINANCING FOR MAIN PIPELINE, NOT OXY SPUR. BANK OF AMERICA OFFICIALS NOTED THAT, ACCORDING TO THEIR ESTIMATES, OXY HAS 200-250 MILLION BBLs. OF PROVEN RESERVES AND PETROPERU 220 MILLION. (THESE ARE LOWER THAN GOP ESTIMATE.)

3. THSI WEEK CARACAS LA REGIONAL REPRESENTAIVE OF WELLS FARGO, BRIAN JENSEN, CALLED ON EMBASSY STATING THAT RALPH CRAWFORD, VICE CHAIRMAN OF WELLS FARGO, AND CARLOS RODRIGUEZ-PASTOR, VP FOR LATIN AMERICA, PLAN TO VISIT PERU APRIL 10-16 TO DISCUSS WELLS FINANCING FOR OXY SPUR, AS WELL AS OTHER MATTERS (SEE SEPTEL ON WELLS-IRANIAN LOAN FOR PIPELINE). JENSEN SAID THAT WELLS HAS RECEIVED ALL CURRENT DATA FROM PETROPERU/COFIDE ON PROVEN RESERVES AND THAT, ALTHOUGH HE DID NOT HAVE EXACT FIGURES AT HAND, WELLS BELIEVES OVERALL FEASIBILITY OF PIPELINE PROJECT IS JUSTIFIED. (JENSEN SAID DOCUMENTS SHOW THAT OXY CAN PUMP 40,000 BD INITIALLY, AND PETROPERU FIELDS 20-30,000 BD. HE SAID THESE ESTIMATES MAY BE SOMEWHAT LOW SINCE HE HAD ACCESS ONLY TO EARLY 1974 DATA AND NOT MOST RECENT 1975 DATA SUBMITTED TO WELLS FARGO BY PETROPERU.) HE ALSO SAID THAT KEY ELEMENT IN CONSIDERING FEASIBILITY OF PIPELINE IS NOT THE CASH-FLOW IT WILL GENERATE, WHICH WILL BE MINIMAL FOR FIRST FEW YEARS AT LEAST, BUT THE FACT THAT WITH INITIAL PRODUCTION OF 90,000-100,000 BD, PERU WILL ESSENTIALLY BE SELF-SUFFICIENT IN OIL AND THEREFORE SAVE ITS CURRENT PETROLEUM IMPORT COSTS OF \$145 MILLION. THUS, WELLS GENERALLY ACCEPTS BOP CRITERIA AND CREDIT WORTHINESS OF GOP AS ESSENTIAL ELEMENTS IN LOANING PERU MONEY FOR THE PIPELINE AND DOES NOT FORESEE NEED FOR

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MASSIVE FOREIGN EXCHANGE GENERATION FROM OIL AS ESSENTIAL TO TH BAKABILITY OF THE PROJECT. (COMMENT: THESE ARE FIRST HARD FIGURES WE HAVE OBTAINED AND THEY TEND TO CONFIRM OUR VIEW THAT PERU WILL NOT BE NET PETROLEUM EXPORTER AT LEAST FOR NEAR FUTURE.

4. JENSEN ALSO EXPLAINED THAT PETROPERU TOLD HIM THAT IT HAS ALREADY CONTRACTED WILLIAMS BROS. CONSORTIUM

(RESPONSIBLE FOR JUNGLE PORTION OF MAIN LINE) TO
SEE WHETHER IT WOULD BE WILLING TO CONSTRUCT OXY SPUR
ON TURN-KEY BASIS FOR OXY. HE SAID FURTHER THAT WELLS
FARGO, BECHTEL, AND WILLIAMS BROS. WOULD BE APPROACH-
ING EX-IM WEEK OF MARCH 31-APRIL 4 TO SEE ABOUT
EX-IM'S INTEREST IN FINANCING OXY SPUR.

5. COMMENT:ACTION REQUEST: ALTHOUGH WE STILL HAVE
NOTHING OFFICIAL FROM GOP, PETROPERU APPROACHES TO
THESE TWO BANKS GIVES FURTHER CREDENCE TO VIEW THAT OXY
WILL BE ASKED OFFICIALLY TO CONSTRUCT ITS OWN LINE AND
ALSO TO FACT THAT PETROPERU MAY BE CHANGING SIGNALS
TO INDICATE THAT IT WANTS EX-IM FINANCING FOR OXY SPUR
AS WELL AS POSSIBLY FOR MAIN PIPELINE. GIVEN FACT THAT
WELLS AND BANK OF AMERICA MAY BE APPROACHING EX-IM SOON,
DRAWING ON THIS MESSAGE AS YOU SEE FIT, YOU MAY WISH TO
INFORM EX-IM OF PETROPERU'S APPARENT INTEREST IN OXY SPUR.
23 0LAN TO TALK TO PETROPERU NEXT WEEK ONCE AGAIN TO
GET SIGNALS STRAIGHT, AND WOULD APPRECIATE DEPARTMENT'S
VIEWS ON THESE DEVELOPMENTS AS WELL.
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